how much to save for retirement in canada

How Much to Save for Retirement in Canada: A Comprehensive Guide

how much to save for retirement in canada is a question on the minds of many Canadians, and for good reason. Planning for your golden years is one of the most critical financial decisions you'll make. This comprehensive guide will demystify the process, breaking down the key factors influencing your retirement savings goals, from income replacement ratios and life expectancy to the impact of inflation and investment growth. We'll explore various saving strategies, government programs, and the role of different investment vehicles in helping you achieve financial independence in your later years. Understanding these elements is crucial for building a robust retirement plan tailored to your unique circumstances.

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Understanding Your Retirement Income Needs

The first step in determining how much to save for retirement in Canada is to accurately assess your projected annual expenses during your retirement years. Many financial planners suggest aiming to replace a significant portion of your pre-retirement income. This income replacement ratio is a critical benchmark, though it's not a one-size-fits-all solution. Consider your lifestyle expectations, potential healthcare costs, travel desires, and any debts you anticipate paying off before retirement. A detailed budgeting exercise for your retirement years will provide a more concrete financial target.

It's important to acknowledge that your spending habits might change in retirement. Some expenses, like commuting costs or work-related attire, may decrease, while others, such as travel, hobbies, or medical expenses, might increase. Therefore, a thorough analysis of your current spending and how it might evolve is essential. Simply multiplying your current income by a percentage might not capture the nuances of your future financial landscape.

Estimating Your Annual Retirement Expenses

To effectively estimate your annual retirement expenses, it’s helpful to categorize potential costs. This allows for a more structured and accurate projection. Think about essential living costs such as housing (mortgage payments, property taxes, utilities), food, transportation, and healthcare premiums or out-of-pocket expenses. Beyond the essentials, consider discretionary spending like travel, entertainment, dining out, hobbies, and gifts for family.

Furthermore, don't forget to account for potential unexpected expenses. This could include home repairs, vehicle maintenance, or unforeseen medical needs. Building in a contingency fund or a buffer for these unpredictable costs will add a layer of security to your retirement plan. A conservative approach to estimating expenses is generally recommended to ensure you are adequately prepared.

The Importance of Income Replacement Ratio

The concept of an income replacement ratio is a widely used guideline for retirement planning. It suggests that individuals should aim to have a retirement income that is a certain percentage of their pre-retirement earnings. For instance, a common recommendation is to aim for 70% to 80% of your final working income. This ratio is based on the assumption that certain work-related expenses will cease and that your overall spending might decrease as you pay off debts and reduce your work commitments.

However, the ideal income replacement ratio can vary significantly from person to person. Factors such as your planned retirement lifestyle, existing pension plans, and the presence of a spouse or partner can all influence this percentage. For example, someone who plans extensive international travel or has significant healthcare needs may require a higher replacement ratio than someone planning a more modest retirement.

Factors Influencing How Much to Save

Several key variables will significantly impact the total sum you need to accumulate for a comfortable retirement in Canada. These include your expected lifespan, the rate of inflation, your anticipated investment returns, and the timing of your retirement. Understanding how each of these elements interacts is crucial for setting realistic savings goals and developing an effective strategy. Ignoring any of these could lead to underfunding your retirement.

Your personal circumstances are paramount. Factors like your current age, your income level, your existing savings, and your risk tolerance for investments will all play a role in shaping your retirement savings journey. A younger individual with a long time horizon might be able to save less each year compared to someone closer to retirement. Similarly, individuals with higher incomes may have a greater capacity to save more aggressively.

Life Expectancy and Retirement Duration

A critical, yet often overlooked, factor in retirement planning is life expectancy. Canadians are living longer, which means your retirement savings need to last for a potentially extended period. Accurately estimating how long you might live in retirement is essential for ensuring your funds don't run out prematurely. While it's impossible to predict your exact lifespan, using actuarial data and considering your family history can help inform this projection.

Planning for a longer lifespan is generally a prudent approach. This means your retirement nest egg must be large enough to support you for 20, 30, or even more years. This extended duration significantly increases the total amount of money you will need to withdraw from your savings over time, thereby increasing the overall savings target.

The Impact of Inflation

Inflation erodes the purchasing power of money over time. This means that the amount of money you need today to maintain a certain lifestyle will be significantly higher in the future. When calculating your retirement savings needs, it's imperative to factor in the anticipated effects of inflation throughout your retirement years. A seemingly adequate sum today could be insufficient to cover your expenses in 20 or 30 years if inflation is not accounted for.

For example, if you assume a consistent inflation rate of 2% per year, the purchasing power of $100 today will be much less in the future. This is why many retirement calculators incorporate an inflation adjustment to project future expenses in today's dollars. Failing to account for inflation can lead to a significant shortfall in your retirement income, forcing you to reduce your standard of living unexpectedly.

Anticipated Investment Returns

The rate at which your retirement savings grow through investments will have a profound impact on how much you need to save out-of-pocket. Higher assumed rates of return can reduce the total amount you need to contribute, as your investments do a larger portion of the heavy lifting. Conversely, lower expected returns necessitate larger contributions to reach your goals.

It's important to be realistic and conservative when projecting investment returns. While aggressive growth strategies might offer higher potential returns, they also come with greater risk. A diversified investment portfolio that aligns with your risk tolerance and time horizon is generally recommended. Financial advisors often use historical average market returns, adjusted for risk, when helping clients plan their retirement savings.

Common Retirement Savings Rules of Thumb

While personalized planning is always best, several popular rules of thumb can offer a quick starting point for understanding how much to save for retirement in Canada. These guidelines are simplified approximations designed to provide a general sense of the target amount. However, they should not replace a detailed, individualized assessment of your financial situation and retirement goals.

These rules of thumb are often based on a percentage of your income or a multiple of your salary. They serve as a useful initial benchmark but are not exhaustive. It’s crucial to remember that individual circumstances vary widely, making these general guidelines a starting point rather than a definitive answer.

The 10% Savings Rule

A frequently cited guideline is to save at least 10% of your pre-tax income for retirement. This rule suggests that by consistently putting aside a portion of your earnings, you can build a substantial nest egg over time. While a good starting point, for many Canadians, especially those who start saving later in life or have higher income replacement needs, 10% may not be sufficient to achieve their desired retirement lifestyle.

The effectiveness of the 10% rule is heavily dependent on your age when you start saving, your income level, and your investment growth. Someone who starts saving in their 20s might find 10% adequate, whereas someone starting in their 40s might need to save considerably more to catch up.

The 25x Annual Expenses Rule

Another popular guideline, often referred to as the "25x rule" or the "4% rule," suggests that you should aim to have accumulated 25 times your desired annual retirement income. For example, if you aim to spend $60,000 per year in retirement, you would need to save $1.5 million ($60,000 x 25). This rule is derived from research on sustainable withdrawal rates, suggesting that withdrawing 4% of your portfolio annually is sustainable over a 30-year retirement without depleting your capital.

This rule is a more robust metric than simply saving a percentage of income, as it directly links your savings goal to your projected retirement spending. However, it's important to remember that the 4% withdrawal rate is a guideline and can be affected by market volatility and the longevity of your retirement.

Strategies for Maximizing Retirement Savings in Canada

Beyond understanding the numbers, adopting effective saving strategies is key to ensuring you meet your retirement goals. Canada offers several tax-advantaged accounts that can significantly boost your savings potential. Leveraging these tools can make a substantial difference in the amount you accumulate over your working life.

Proactive financial management, consistent saving, and smart investment choices are the pillars of successful retirement planning. Exploring all available options and adapting your approach as your circumstances change will maximize your chances of a financially secure retirement.

Leveraging Registered Retirement Savings Plans (RRSPs)

Registered Retirement Savings Plans (RRSPs) are a cornerstone of retirement savings in Canada. Contributions to an RRSP are tax-deductible, meaning they reduce your taxable income in the year you make the contribution. This tax deferral allows your investments to grow without immediate taxation, accelerating wealth accumulation. Your RRSP savings are not taxed until you withdraw them in retirement, when your income may be lower.

Understanding your RRSP contribution limit is crucial. This limit is typically 18% of your earned income from the previous year, up to a certain maximum amount set annually by the Canada Revenue Agency (CRA). Unused contribution room can be carried forward indefinitely.

Utilizing Tax-Free Savings Accounts (TFSAs)

Tax-Free Savings Accounts (TFSAs) are another powerful tool for Canadians. Unlike RRSPs, contributions to a TFSA are made with after-tax dollars, but all investment growth and withdrawals are completely tax-free. This makes TFSAs incredibly flexible for both short-term and long-term savings goals, including retirement.

TFSAs are particularly beneficial for individuals in lower tax brackets or those who have maxed out their RRSP contributions. The annual contribution limit for TFSAs is set by the government and accumulates each year if not used. The flexibility of withdrawing funds from a TFSA at any time without penalty or tax implications makes it a valuable component of a balanced savings strategy.

Employer-Sponsored Pension Plans

Many Canadian employers offer defined benefit (DB) or defined contribution (DC) pension plans. These plans can be a significant advantage for retirement savings, providing a structured way to accumulate wealth with potential employer matching contributions. A DB plan promises a specific retirement income based on your salary and years of service, while a DC plan's retirement income depends on the contributions made and the investment performance.

If your employer offers a pension plan, it's highly recommended to participate and contribute as much as possible, especially if there's an employer match. This is essentially "free money" that can significantly boost your retirement savings. Understanding the details of your employer's plan, including vesting periods and payout options, is vital.

Government Programs and Retirement Savings

Canada has a robust social safety net designed to provide a baseline income for seniors. Understanding these government programs is crucial when calculating your total retirement income needs. These programs can supplement your personal savings and provide a foundation for your financial security in later life.

While government benefits are important, they are generally not sufficient on their own to provide a comfortable retirement for most Canadians. They are intended to supplement, not replace, personal savings and employer pensions.

Canada Pension Plan (CPP) / Quebec Pension Plan (QPP)

The Canada Pension Plan (CPP) and its Quebec counterpart, the Quebec Pension Plan (QPP), are contributory, earnings-related social insurance programs. Most working Canadians aged 18 and over contribute to the CPP/QPP. Upon retirement, disability, or death, benefits are paid to contributors and their families. The amount of CPP/QPP retirement pension you receive depends on how much and how long you contributed to the plan.

Retirement benefits can begin as early as age 60 or be deferred until age 70. Deferring your pension can result in a significantly higher monthly payment. It's important to consider your overall financial picture and life expectancy when deciding when to start collecting CPP/QPP benefits.

Old Age Security (OAS) Pension

The Old Age Security (OAS) pension is the largest and most fundamental source of retirement income for seniors in Canada. It is a taxable monthly payment available to most Canadians aged 65 and older who meet the residency requirements. Unlike CPP/QPP, OAS is not based on your employment history; it is a universal benefit funded from general tax revenues.

The amount of OAS pension you receive can be affected by your income in retirement. High-income earners may be subject to a clawback, where a portion of their OAS pension is repaid. It's important to factor in potential OAS benefits and any applicable clawback when estimating your total retirement income.

When to Seek Professional Advice

Navigating the complexities of retirement planning can be challenging, and for many, seeking guidance from a qualified financial professional is a wise decision. A financial advisor can help you create a personalized retirement plan that aligns with your specific circumstances, goals, and risk tolerance. They can provide objective advice and help you make informed decisions about saving, investing, and managing your finances.

Don't hesitate to reach out for assistance. A well-thought-out plan, potentially with professional input, can provide peace of mind and a clear roadmap to achieving your retirement aspirations.

Benefits of Working with a Financial Planner

A financial planner can offer invaluable expertise in areas such as investment management, tax planning, estate planning, and risk management. They can help you understand your retirement needs, develop a savings strategy, and select appropriate investment vehicles to maximize your returns while managing risk. Furthermore, they can help you stay on track with your plan, making adjustments as necessary due to changes in market conditions or your personal situation.

Working with a financial planner can also provide behavioural coaching, helping you avoid emotional financial decisions during volatile market periods. Their objective perspective can be crucial in maintaining discipline and sticking to your long-term retirement strategy.

FAQ

Q: How much money do I need to retire comfortably in Canada?

A: The amount needed to retire comfortably in Canada varies greatly depending on your lifestyle, expected expenses, and desired retirement age. A common guideline is to aim for 70-80% of your pre-retirement income, but a personalized assessment of your projected annual expenses is crucial. Factors like housing, healthcare, travel, and hobbies will significantly influence this figure.

Q: Is 10% of my income enough to save for retirement in Canada?

A: Saving 10% of your income for retirement in Canada can be a good starting point, especially if you begin early and benefit from strong investment growth. However, for many Canadians, particularly those who start saving later or have higher income replacement needs, 10% may not be sufficient. It's often recommended to aim higher if possible, or at least ensure this target aligns with a comprehensive retirement plan.

Q: How much should I have saved by age 40 in Canada?

A: There's no single magic number for how much you should have saved by age 40 in Canada. However, a common benchmark suggests you should have at least two to three times your current annual salary saved by this age. This is a rough guideline, and your actual savings goal will depend on your income, expenses, and when you plan to retire.

Q: Should I prioritize RRSP or TFSA for retirement savings in Canada?

A: Both RRSPs and TFSAs are valuable for retirement savings in Canada, and the best choice depends on your individual circumstances. RRSP contributions are tax-deductible, reducing your current taxable income, while TFSA withdrawals are tax-free in retirement. Many Canadians benefit from using both accounts strategically, often maximizing RRSPs first if they are in a higher tax bracket, and then utilizing TFSAs for flexibility and tax-free growth.

Q: What is the role of the Canada Pension Plan (CPP) in retirement savings?

A: The Canada Pension Plan (CPP) provides a foundational income in retirement based on your past contributions. It is a government-sponsored program designed to supplement personal savings and employer pensions. The amount you receive from CPP depends on your earnings history and how long you contributed, and you can choose to start collecting it as early as age 60 or defer it for a higher payout later.

Q: How does inflation affect my retirement savings in Canada?

A: Inflation significantly erodes the purchasing power of your money over time, meaning that the same amount of money will buy less in the future. When planning for retirement in Canada, it's crucial to account for inflation by projecting your future expenses in today's dollars and ensuring your savings grow at a rate that outpaces inflation. Failing to do so can lead to a reduced standard of living in your later years.

Q: Can I rely solely on government benefits for retirement in Canada?

A: While government benefits like the Canada Pension Plan (CPP) and Old Age Security (OAS) provide a crucial baseline income, most Canadians cannot rely solely on these programs for a comfortable retirement. These benefits are generally intended to supplement personal savings, employer pensions, and other investments. To maintain your desired lifestyle, additional savings are typically required.

How Much To Save For Retirement In Canada

how much to save for retirement in canada: The Smart Canadian's Guide to Saving Money Pat Foran, 2010-03-18 Canada’s top consumer advocate returns with more financial advice. Canadian consumers are focused on spending and managing what money they do have wisely, but have more questions than answers on most financial topics. Television personality and consumer advocate Pat Foran shares tips and strategies about the questions and issues he sees most often, and explains how some little things can soon add up to a lot of money. Some of the topics covered include: Credit and loyalty cards, and what kind of deal they really are How much insurance is enough – and what kinds do most people need? How to shop for a vehicle, and if it’s worth it to import from the US Mortgages, tax breaks, and other complicated financial decisions Getting the most bang for your buck, whether while shopping or travelling Packed with money-saving advice, this title will also include the latest information on marketplace trends, the investment climate, housing prices, interest rates, and other techniques for savings. As an added bonus, Pat has included quotes and comments from prominent Canadian businesspeople and celebrities about the best financial advice they’ve received in their lifetimes. Pat Foran is seen by millions of Canadians each week as the Consumer Reporter for CFTO News, and Consumer Expert on CTV’s Canada AM. His “Consumer Alert” segment is currently on CFTO’s noon, six o’clock and eleven-thirty newscasts, five days a week with an audience of 700,000 viewers, and he appears on Canada AM, Canada’s number-one national morning show every week, dispensing financial and consumer advice.

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how much to save for retirement in canada: The Routledge Handbook of Financial Literacy Gianni Nicolini, Brenda J. Cude, 2021-12-30 Financial literacy and financial education are not new topics, even though interest in these topics among policymakers, financial authorities, and academics continues to grow. The Routledge Handbook of Financial Literacy provides a comprehensive reference work that addresses both research perspectives and practical applications to financial education. This is the first volume to summarize the milestones of research in financial literacy from multiple perspectives to offer an overview. The book is organized into six parts. The first three parts provide a conceptual framework, which discusses what financial literacy is, how it should be measured, and explains why it represents a relevant topic and effective tool in enhancing decision-making among consumers as well as consumer protection strategies. Part IV addresses the connection between financial education and financial literacy, with chapters about financial education in school settings as well as for adults. This part includes an analysis of the role of Fintech and the use of gamification in financial education. Part V is a collection of contributions that analyze financial literacy and financial education around the world, with a focus on geographical areas including the U.S., South America, Western Europe, Eastern Europe, Asia, and Africa. This part also considers how financial literacy should be addressed in the case of Islamic finance. The concluding part of the book examines how financial literacy is related to other possible approaches to consumer finance and consumer protection, addressing the relationships between financial literacy and behavioral economics, financial well-being, and financial inclusion. This volume is an indispensable reference for scholars who are new to the topic, including undergraduate and graduate students, and for experienced researchers who wish to enrich their knowledge, policymakers seeking a broader understanding and an international perspective, and practitioners who seek knowledge of best practices as well as innovative approaches.

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how much to save for retirement in canada: The Rule of 30 Frederick Vettese, 2021-10-19 Consider the age-old question of how much you should save to enjoy a comfortable retirement: Are your knees knocking? Are you nervously biting your nails? In The Rule of 30 personal finance expert Frederick Vettese provides a surprising — and hopeful — answer. Through conversations between a young couple and their neighbor, a retired actuary, the couple and the reader discover: • How they would have fared had they been saving over various periods in the past, and how the future investment climate will differ • The problem with saving a constant percentage of pay • The Rule of 30 and why it is a more rational way to save • Whether investing in real estate is a viable alternative to investing in stocks The Rule of 30 changes the mindset from saving the same flat percentage of pay to saving when it is most convenient to your situation. In most cases, it means less saving early on while mortgage payments are high and children are costly, and more saving later. Saving for retirement is a high priority, but it is not the only priority in life. It is time to dispense with old myths like “just save 10% of your take-home pay.” The truth is we should save differently throughout our pre-retirement years — and The Rule of 30 is a road map for doing so.

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how much to save for retirement in canada: Start Late, Finish Rich (Canadian Edition) David Bach, 2009-05-29 David Bach has a plan to help you live and finish rich—no matter where you start So you feel like you’ve started late? You are not alone. What if I told you that right now as you flip through this book, 70% of the people in the store with you are living paycheck to paycheck? What if I told you that the man browsing the aisle to your left owes more than $8,000 in credit card debt? And the woman on your right has less than $1,000 in savings? See? You’re really not alone. Unfortunately, the vast majority of people who’ve saved too little and borrowed too much will never catch up financially. Why? Because they don’t know how. You can start late and finish rich—but you need a plan. This book contains the plan. It’s inspiring, easy to follow, and is based on proven financial principles. Building a secure financial future for yourself isn’t something you can do overnight. It will take time and it will take work. But you can do it. I know. I’ve helped millions of people get their financial lives together—and I can help you. Spend a few hours with me—and let me challenge you. Give me a chance to become your coach. Just because you started late doesn’t mean you are doomed to an uncertain future. Whether you’re in your thirties, forties, fifties, or beyond, there is still time to turn things around. It’s never too late to live and finish rich. All it takes is the decision to start. —David Bach Is it too late for me to get rich? Over and over, people share their fears with David Bach, America’s leading money coach and the number-one national best-selling author of The Automatic Millionaire. “If only I had started saving when I was younger!” they say. “Is there any hope for me?” There IS hope, and help is here at last! In Start Late, Finish Rich, David Bach takes the “Finish Rich” wisdom that has already helped millions of people and tailors it specifically to all of us who forgot to save, procrastinated, or got sidetracked by life’s unexpected challenges. Whether you are in your thirties, forties, fifties, or even older, Bach shows that you really can start late and still live and finish rich – and you can get your plan in place fast. In a motivating, swift read you learn how to ramp up the road to financial security with the principles of spend less, save more, make more – and most important, LIVE MORE. And he gives you the time tested plan to do it. The Start Late, Finish Rich promise is bold and clear: Even if you are buried in debt – there is still hope. You can get rich in real estate – by starting small. Find your “Latte Factor” – and turbo charge it to save money you didn’t know you had. You can start a business on the side – while you keep your old job and continue earning a paycheck. You can spend less, save more and make more – and it doesn’t have to hurt. David Bach gives you step-by-step instructions, worksheets, phone numbers and website addresses --everything you need to put your Start Late plan into place right away. And he shares the stories of ordinary Americans who have turned their lives around, at thirty, forty, fifty, even sixty years of age, and are now financially free. They did it, and now it’s your turn. With David Bach at your side, it’s never too late to change your financial destiny. It’s never too late to live your dreams. It’s never too late to be free.

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how much to save for retirement in canada: Contract with America--savings and Investment United States. Congress. House. Committee on Ways and Means, 1996

how much to save for retirement in canada: *52 Ways to Wreck Your Retirement* Tina Di Vito, 2012-01-09 Retirement planning isn't something that happens at a specific point in time or at a specific age - we are all affecting our retirement plans every day with every decision we do or don't make. Canadians are living longer, and the average retiree in the future may have as much as 30 years of retirement to plan for, and there are many simple things that will impact our eventual retirement life. 52 Ways to Wreck Your Retirement identifies 52 things we do that could wreck our retirement, explains why it puts your retirement at risk, and provides the strategy to correct the mistake, or better still, avoid it entirely. The book is organized under several key areas of the planning process, including: Starting to Plan for Retirement Mistakes around Investing Mistakes around Debt Saving for Retirement Pensions Living in Retirement Spending in Retirement New Realities about Retirement 52 Ways to Wreck Your Retirement is not a feel-good book about how wonderful retirement will be or an alarming fear-mongering book about dying broke, nor is it a get-rich-late-retirement solution. Quite simply, it is an easily-accessible and practical guide written for Canadians of all ages that gives you the tools you need to better manage the financial and personal aspects of your retirement.

how much to save for retirement in canada: *Investing For Canadians For Dummies* Eric Tyson, Tony Martin, 2018-12-06 Invest confidently—and successfully—in any climate Making your own investment decisions can be intimidating and overwhelming. Investors have a huge array of investment options to choose from, and sorting through the get-rich-quick hype can be exhausting. Investing For Canadians For Dummies provides you with a clear-headed, honest overview of the investing landscape, helping you to determine what investments are right for your goals. Investing For Canadians For Dummies covers all aspects of investing, including how to: develop and manage a portfolio; find the best mutual funds and exchange-traded funds; assess the value of stocks and bonds; evaluate real estate options; open and run a small business; and understand the critical tax implications of one's investing decisions. Make smart investment decisions Plan the portfolio that's right for you Reach your investment goals Get recommendations for the best mutual funds and ETFs Novice and experienced investors alike will turn to the helpful guidance in this all-encompassing guide again and again!

how much to save for retirement in canada: A Practical Guide to Financial Services Lien Luu, Jonquil Lowe, Patrick Ring, Amandeep Sahota, 2021-12-27 Financial services are an ever increasing part of the infrastructure of everyday life. From banking to credit, insurance to investment and mortgages to advice, we all consume financial services, and many millions globally work in the sector. Moreover, the way we consume them is changing with the growing dominance of fintech and Big Data. Yet, the part of financial services that we engage with as consumers is just the tip of a vast network of markets, institutions and regulators – and fraudsters too. Many books about financial services are designed to serve corporate finance education, focusing on capital structures, maximising shareholder value, regulatory compliance and other business-oriented topics. A Practical Guide to Financial Services: Knowledge, Opportunities and Inclusion is different: it swings the perspective towards the end-user, the customer, the essential but often overlooked participant without whom retail financial services markets would not exist. While still introducing all the key areas of financial services, it explores how the sector serves or sometimes fails to serve consumers, why consumers need protection in some areas and what form that protection takes, and how consumers can best navigate the risks and uncertainties that are inherent in financial products and services. For consumers, a greater understanding of how the financial system works is a prerequisite of ensuring that the system works for their benefit. For students of financial services – those aspiring to or those already working in the sector – understanding the consumer perspective is an essential part of becoming an effective, holistically informed and ethical member of the financial services community. A Practical Guide to Financial Services: Knowledge, Opportunities and Inclusion will equip you for both these roles. The editors and authors of A Practical Guide to Financial Services: Knowledge, Opportunities and Inclusion combine a wealth of financial services, educational and consumer-oriented practitioner experience.

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